

PCI MEMBRANE SYSTEMS LIMITED  
DIRECTORS' REPORT AND ACCOUNTS  
FOR THE YEAR ENDED 31ST MARCH 1998  
REGISTERED NO. 2249185



PCI MEMBRANE SYSTEMS LIMITED

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their annual report, together with the accounts of the Company for the year ended 31st March 1998.

Business Review

The principal activity of the Company continues to be the supply of separation systems for the food, effluent, pharmaceutical and allied industries and the military.

Dividends

A dividend of £266,000 (1997: £482,000), has been declared in respect of the year ended 31st March 1998.

Directors

The Directors serving during the year were:

W R Harper	(Resigned 9th December 1997)
C P Millington	
S Skelton	(Appointed 9th December 1997)
R J Wimmer	(Appointed 9th December 1997)

Directors' Interests

The Directors have no interests in the share capital of the Company. C P Millington had the following interest in the shares of the ultimate holding company:

Ordinary Shares in Thames Water Plc

	<u>Shares held</u>		<u>Options to Subscribe</u>	
	<u>31.3.98</u>	<u>31.3.97</u>	<u>Exercised</u>	<u>31.3.97</u>
C P Millington	2282	NIL	5000	13,657

The shareholdings of other directors in the ultimate holding company (Thames Water Plc) are dealt with in the accounts of the company's immediate holding company (Thames Water Products Ltd).

No Director had a material interest in any contract entered into by the Company during the year.

Arrangements for Health, Safety and Welfare of Employees

The Company operates a health and safety policy as required under the terms of the Health and Safety at Work Act 1974. The Company is aware of its responsibilities and seeks to pursue policies to maximise the welfare and safety of employees.

Research and Development

The Company carries out, directly and indirectly, research and development consistent with its activities.

Auditors

A resolution to re-appoint the auditors, Coopers and Lybrand, will be proposed at the Annual General Meeting.

Post Balance Sheet Events

On 1 April 1998 the issued share capitals of TM Products Limited, Simon-Hartley Limited and Thames Water Technologies Limited were acquired from Thames Water Products Limited. Subsequent to this the trading assets and liabilities of those companies were transferred to PCI Membrane Systems Ltd.

The cost of the shares acquired was:

Simon-Hartley Limited	9,062,000
TM Products Limited	18,505,000
Thames Water Technologies Ltd	511,000

Year 2000

Year 2000 computer issues are under review by a working party specially formed for the purpose and it is anticipated that there will be no adverse effect on the company as we move to a new Millennium.

By order of the Board

S Skelton

S Skelton  
Secretary

Laverstoke Mill  
Whitchurch  
Hampshire

Directors' Responsibility Statement

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- (d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Auditors  
To the Members of PCI Membrane Systems Limited

We have audited the accounts on pages 5 to 15.

Respective responsibilities of Directors and Auditors.

As described on page 3, the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

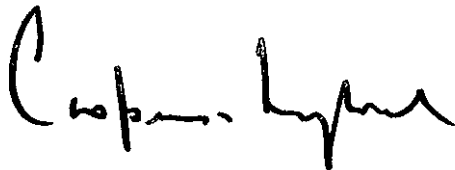
**Basis of Opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company at 31 March 1998, and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



COOPERS & LYBRAND  
Chartered Accountants and Registered Auditors  
Southampton

16 June

1998

PCI MEMBRANE SYSTEMS LIMITED  
PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31ST MARCH 1998

	<u>Note</u>	<u>31 March 1998</u>	<u>31 March 1997</u>
Turnover	2	8,603,916	7,212,065
Cost of Sales		(5,074,784)	(4,203,851)
Gross Profit		3,529,132	3,008,214
Other operating expenses	3	(2,959,561)	(2,514,136)
Net operating profit		569,571	494,078
Interest receivable and similar income	4	12,486	33,892
Interest payable		0	0
Profit on ordinary activities before tax	5	582,057	527,970
Taxation on profit on ordinary activities	8	(99,000)	(166,000)
Profit on ordinary activities after tax		483,057	361,970
Dividends paid	9	(266,000)	(482,000)
Profit/(Loss) for the period	17	217,057	(120,030)

The company has no recognised gains or losses other than those included in the results above, and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between profit on ordinary activities before tax and loss of the years stated above and their historical costs equivalents.

All items dealt with in arriving at the results above relate to continuous operations.

The notes on pages 7-15 form an integral part of these accounts. Auditors' Report - page 4.

PCI MEMBRANE SYSTEMS LIMITEDBALANCE SHEET AS AT 31 ST MARCH 1998

	<u>Note</u>	<u>1998</u> £	<u>1997</u> £
<u>FIXED ASSETS</u>			
Tangible assets	10	779,701	644,930
<u>CURRENT ASSETS</u>			
Stocks	11	1,170,848	940,484
Debtors	12	1,849,291	2,210,832
Cash at bank and in hand		339,792	28,923
		£3,359,931	£3,180,239
<u>CREDITORS</u>			
Amounts falling due within one year	13	(2,968,237)	(2,969,760)
NET CURRENT ASSETS		391,694	210,479
TOTAL ASSETS LESS CURRENT LIABILITIES		1,171,395	855,409
PROVISIONS FOR LIABILITIES	14	(300,206)	(201,277)
NET ASSETS		£871,189	£654,132
<u>CAPITAL AND RESERVES</u>			
Called up share capital	16	250,000	250,000
Profit and loss account	17	621,189	404,132
Equity shareholders' fund	18	871,189	654,132

Director:  C P Millington

The accounts were approved by the Board of Director on 12<sup>th</sup> June 1998

The notes on pages 7-15 form an integral part of the accounts. Auditors' report - page 4.

PCI MEMBRANE SYSTEMS LIMITED  
NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

Accounting Convention

The accounts have been prepared under the historical cost accounting rules and in accordance with applicable accounting standards in the United Kingdom. A summary of the more important accounting policies which have been applied consistently is set out below.

Turnover

Turnover, which excludes value added tax, comprises the amounts derived from the provision of goods and services.

Stock and Work in Progress

Stock and work in progress has been consistently valued at the lower of cost and estimated net realisable value. Cost includes the direct cost of materials and labour and an appropriate proportion of production overheads.

Depreciation

Depreciation of fixed assets is provided on a straight line basis over the estimated economic lives of individual assets, based on their cost. The rates generally applied range from 10% pa to 33% pa.

Research and Development

Research and development expenditure is written off in the period during which it is incurred.

Contributions to Pension Schemes

Contributions to pension schemes at rates recommended by independent actuaries are charged to the profit and loss account on a consistent annual basis. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services.

Interest

Interest payable is written off to the profit and loss account as it is incurred.

Deferred Taxation

Deferred taxation has been calculated on the liability method on:

- (a) the excess of the cost less depreciation of those fixed assets qualifying for taxation allowances over their written down value for taxation purposes in respect of those timing differences which are expected to crystallise in the foreseeable future. Provision is made at the rate which is expected to be applied when the liability or asset is expected to crystallise.
- (b) expenditure charged in the accounts not immediately allowable for taxation and income assessable to taxation in future years.

Rates of Exchange

Assets and liabilities in foreign currencies have been translated into sterling at rates of exchange ruling at 31st March 1998. Foreign exchange differences are taken to the profit and loss account in the year in which they arise.



PCI MEMBRANE SYSTEMS LIMITED  
NOTES TO THE ACCOUNTS CONTINUED

Operating Leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Cash Flow Statement

The Company is a wholly-owned subsidiary of Thames Water Plc, and the cash flows of the Company are included in the consolidated Group Cash Flow Statement of Thames Water Plc. Consequently the Company is exempt under the terms of Financial Reporting Standard No. 1 (Revised) from publishing a Cash Flow Statement.

Goodwill

Purchased goodwill is written off immediately to reserves.

2. Turnover

	<u>31 March 1998</u>	<u>31 March 1997</u>
	£	£
Geographical distribution by market		
United Kingdom	3,375,622	1,922,026
Continental Europe	3,515,049	3,408,960
Americas	1,363,414	1,102,850
Other	349,831	778,229
	<hr/>	<hr/>
	£8,603,916	£7,212,065
	<hr/>	<hr/>

3. Other Operating Expenses

	<u>31 March 1998</u>	<u>31 March 1998</u>
Marketing, selling and distribution expenses	1,082,866	677,746
Administration expenses	1,876,695	1,836,390
	<hr/>	<hr/>
	£2,959,561	£2,514,136
	<hr/>	<hr/>

PCI MEMBRANE SYSTEMS LIMITED

NOTES TO THE ACCOUNTS CONTINUED

4. Interest Receivable and Similar Income

	<u>31 March 1998</u>	<u>31 March 1997</u>
	£	£
On bank and money market deposits and similar income	12,486	33,892
On intra-group loans	NIL	NIL
	<u>£12,486</u>	<u>£33,892</u>

5. Profit On Ordinary Activities Before Taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	<u>Note</u>	<u>31 March 1998</u>	<u>31 March 1997</u>
Depreciation and diminution in value of tangible assets	9	181,369	185,189
Directors' remuneration	6	90,239	91,457
Auditors' remuneration		16,169	17,000
Profit on disposal of fixed assets		(5,079)	(13,032)
Hire of other assets - operating leases -other		12,400	12,400
Research and development		302,688	337,252
Loss on exchange		45,342	21,112

6. Employees

Average monthly number of persons employed by the company during the year was:

		Aggregate payroll cost	
<u>1998</u>	<u>1997</u>	<u>31 March 1998</u>	<u>31 March 1997</u>
		£	£
40	38		
17	12		
		777,130	777,165
		697,669	503,397
61	54	880,282	1,009,831
—	—	<u>          </u>	<u>          </u>
118	104	<u>£2,355,081</u>	<u>£2,290,393</u>
—	—	<u>          </u>	<u>          </u>

PCI MEMBRANE SYSTEMS LIMITEDNOTES TO THE ACCOUNTS CONTINUED

Aggregate payroll costs comprise:-

Wages and salaries	2,029,156	1,970,603
Social security costs	152,363	149,594
Contributions to pension schemes (Note 14).	173,562	170,196
	<hr/>	<hr/>
	£2,355,081	£2,290,393
	<hr/>	<hr/>

7.	<u>Directors' Remuneration</u>	<u>1998</u>	<u>1997</u>
		£	£
	Emoluments		
	Contributions to pension schemes	9,535	15,763
	Other emoluments	80,704	75,694
		<hr/>	<hr/>
		£90,239	£91,457
		<hr/>	<hr/>

During the year one Director exercised share options in the ultimate parent company.

Retirement benefits are occurring to one Director under the Thames Water plc defined benefit pension scheme.

8. Taxation on Profit on Ordinary Activities

	<u>1998</u>	<u>1997</u>
	£	£
United Kingdom corporation tax at 31%(1997: 33%)		
Provision for group relief payable	125,000	172,000
Adjustments of prior years	(26,000)	(6,000)
	<hr/>	<hr/>
	£99,000	£166,000
	<hr/>	<hr/>

9. Dividends

An equity dividend of £266,000 being 106.4p per share (1997:£482,000, being 192.8p per share) was paid during the year.

PCI MEMBRANE SYSTEMS LIMITEDNOTES TO THE ACCOUNTS CONTINUED10. Tangible Assets

Movements during the year

	Plant and machinery	Motor Vehicles	Fixtures & Fittings Equipment	Total
	£	£	£	£
Cost at 1st April 1997	1,009,391	325,295	532,122	1,866,808
Additions at cost	282,704	92,961	37,445	413,110
Disposals	(64,634)	(78,456)	(49,530)	(192,620)
At 31st March 1998	£1,227,461	£339,800	£520,037	£2,087,298
Aggregate depreciation at 1st April 1997	670,954	195,099	355,825	1,221,878
Provided during year	63,415	64,894	53,060	181,369
Disposals	(2,648)	(48,490)	(44,463)	(95,601)
At 31st March 1998	£731,721	£211,503	£364,422	£1,307,646
Net book value at 31st March 1998	495,740	128,297	155,615	779,652
At 31st March 1997	£338,437	£130,196	£176,297	£644,930

PCI MEMBRANE SYSTEMS LIMITEDNOTES TO THE ACCOUNTS CONTINUED11. Stocks

	<u>1998</u> £	<u>1997</u> £
Raw materials and consumables	634,272	570,106
Work in progress	326,766	208,168
Finished goods and goods for resale	209,810	162,210
	<hr/> 1,170,848	<hr/> 940,484

12. Debtors

	<u>1998</u> £	<u>1997</u> £
Trade debtors	1,127,899	1,502,228
Amounts owed by group undertakings	691,404	492,119
Other taxation	2,057	171,926
Other debtors	1,977	7,589
Prepayments	25,954	36,970
	<hr/> 1,849,291	<hr/> 2,210,832

13. Creditors: Amounts falling due within one year

	<u>1998</u> £	<u>1997</u> £
Bank overdraft	-	392,460
Progress claims and advance payments	554,450	196,995
Trade creditors	755,639	662,752
Amounts owed to group undertakings	682,831	683,823
Taxation	269,778	210,914
Social security contributions	27,962	21,957
Other creditors	179,187	201,608
Accruals and deferred income	498,390	599,251
	<hr/> 2,968,237	<hr/> 2,969,760

PCI MEMBRANE SYSTEMS LIMITEDNOTES TO THE ACCOUNTS CONTINUED14. Provisions for Liabilities and Charges

	<u>Deferred Taxation</u> £	<u>Other Provisions</u> £	<u>Total</u> £
At 1st April 1997	NIL	201,277	201,277
Release of provisions no longer required	-	(132,749)	(132,749)
Utilised during the year	-	(8,074)	(8,074)
Provided during the year	-	239,752	239,752
	<hr/>	<hr/>	<hr/>
At 31st March 1998	NIL	£300,206	£300,206
	<hr/>	<hr/>	<hr/>

Deferred taxation not provided is:

	<u>1998</u> £	<u>1997</u> £
Excess of capital allowances over depreciation	(120,277)	(114,229)
Expenditure charged in the accounts not immediately allowed for taxation	(16,011)	(49,897)
	<hr/>	<hr/>
Deferred taxation not provided	(£136,288)	(£164,126)
	<hr/>	<hr/>

Other provisions consist of reserves for warranty claims and further costs which may be incurred on specific closed contracts.

15. Pensions and Similar Obligations

Pension arrangements for the majority of the Company's employees are of the defined benefit type funded through the Thames Water (UK) Pension Scheme whose assets are held separately from those of the Company in an independently administered fund. The Thames Water (UK) Pension Scheme also provides pension benefits for employees of other companies within the Thames Water group.

The total pension cost for the Company was £173,562 (1997:£170,196). The pension cost relating to the Thames Water (UK) Pension Scheme is assessed in accordance with advice received relating to the scheme as a whole, from Bacon & Woodrow, the consulting actuaries to the scheme.

Details of the actuarial valuation of the Thames Water (UK) Pension Scheme are disclosed in the financial statements of Thames Water Plc.

16. Share Capital

	<u>Authorised</u>		<u>Allotted, called up and fully paid</u>	
	<u>1998</u> £	<u>1997</u> £	<u>1998</u> £	<u>1997</u> £
Ordinary shares of £1 per share	£250,000	£250,000	£250,000	£250,000

PCI MEMBRANE SYSTEMS LIMITEDNOTES TO THE ACCOUNTS CONTINUED17. Profit and loss account

	<u>1998</u> £	<u>1997</u> £
At 1st April 1997	404,132	801,334
Profit/(Loss) for the period	217,057	(120,030)
Write-off of purchased goodwill	-	(277,172)
	<hr/>	<hr/>
At 31st March 1998	£621,189	£404,132
	<hr/>	<hr/>

18. Reconciliation of Movements in Equity Shareholders' Funds

	<u>1998</u> £	<u>1997</u> £
Profit for the financial year	483,057	361,970
Write-off of purchase goodwill	-	(277,172)
Dividends	(266,000)	(482,000)
	<hr/>	<hr/>
Net increase/(reduction) to equity shareholders' funds	217,057	(397,202)
Opening equity shareholders' funds	654,132	1,051,334
	<hr/>	<hr/>
Closing equity shareholders' funds	£871,189	£654,132
	<hr/>	<hr/>

19. Contracts for Capital Expenditure

Capital expenditure contracted for at 31st March 1998 was £nil (1997: £nil).

20. Guarantees

There are contingent liabilities in respect of guarantees for plants installed or under construction and other engagements in the ordinary course of business amounting to £983,900 (1997: £525,000). No security has been given for any contingent liability and no contingent liability is expected to result in any material financial loss.

21. Holding Company

The ultimate holding company is Thames Water Plc, a company incorporated in Great Britain, and registered in England. Copies of the holding company's Consolidated Financial Statements may be obtained from Thames Water Plc, 14 Cavendish Place, London W1M 0NU (registered office).

The immediate parent company is Thames Water Products Limited which has a 100% interest in the share capital of PCI Membrane Systems Limited.

PCI MEMBRANE SYSTEMS LIMITEDNOTES TO THE ACCOUNTS CONTINUED22. Financial Commitments

At 31st March, 1998, the Company had annual commitments under non-cancellable operating leases of office equipment as follows:-

	<u>1998</u>	<u>1997</u>
	£	£
Expiring within one year	0	0
Expiring between two and five years inclusive	41,292	41,292
	<hr/>	<hr/>
	£41,292	£41,292
	<hr/>	<hr/>

23. Related Party Transactions

As a wholly owned subsidiary, the Company is exempt from disclosing related party transactions with other group undertakings which are eliminated on consolidation.

No other related party transactions have taken place in the year.